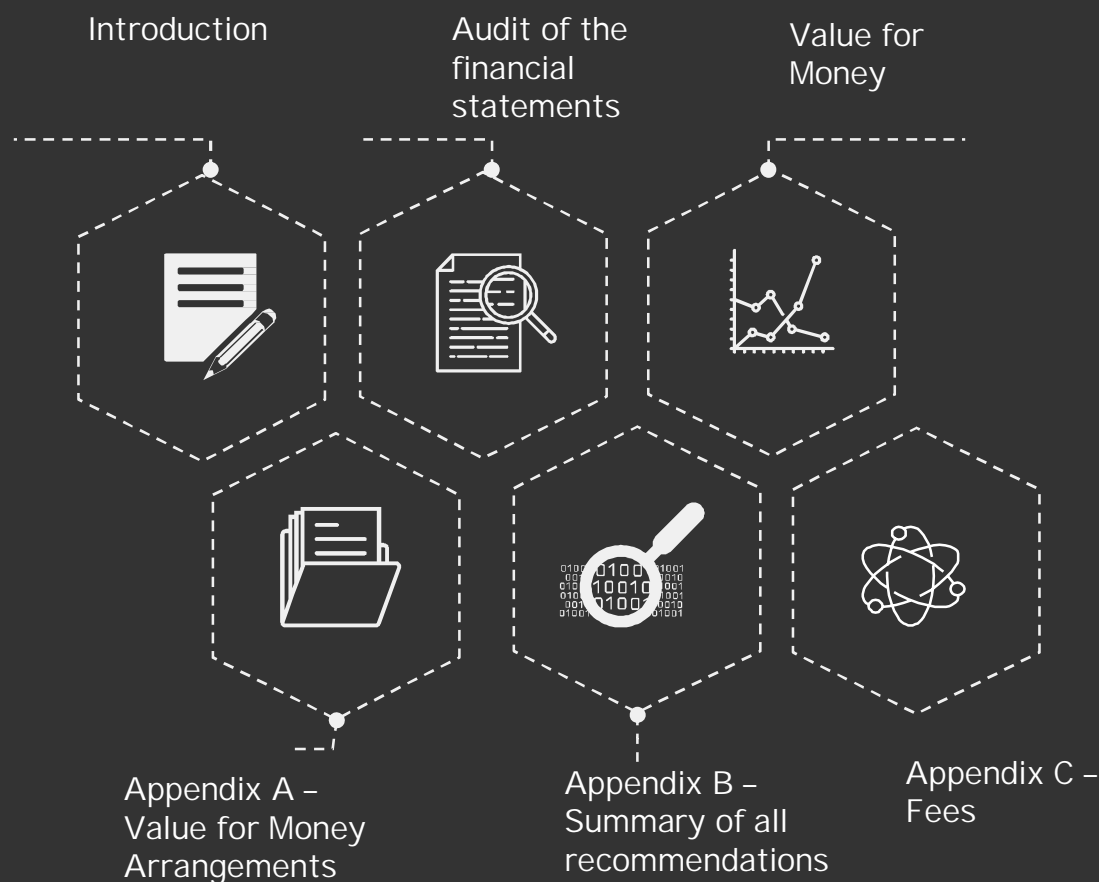


# Appendix A

## Fareham Borough Council Auditor's Annual Report

Year ended 31 March 2022

# Contents



Public Sector Audit Appointments Ltd (PSAA) issued the “Statement of responsibilities of auditors and audited bodies”. It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The “Terms of Appointment and further guidance (updated July 2021)” issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Governance Committee and management of Fareham Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Governance Committee and management of Fareham Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Governance Committee and management of Fareham Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



# Introduction

## Purpose

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on value for money (VFM) arrangements, which aims to draw to the attention of the Council, or the wider public, relevant issues, recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## Responsibilities of the appointed auditor

We have undertaken our 2021/22 audit work in accordance with the Audit Plan that we issued on 27 June 2022. We have complied with the National Audit Office's (NAO) 2020 Code of Audit Practice, other guidance issued by the NAO and International Standards on Auditing (UK).

As auditors we are responsible for:

Expressing an opinion on:

- The 2021/22 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the narrative statement.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

Responsibilities of the Council:

The Council is responsible for preparing and publishing its financial statements, narrative statement and annual governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



## Introduction (continued)

### 2021/22 Conclusions

Financial statements	Unqualified – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2022 and of its expenditure and income for the year then ended. We issued our auditor's report on 28 July 2023.
Going concern	We have concluded that the Chief Executive Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the other information published with the financial statement	Financial information in the narrative statement and published with the financial statements was consistent with the audited accounts.
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements. We have included our VFM commentary in Section 03.
Consistency of the annual governance statement	We were satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.
Whole of government accounts	We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission.
Certificate	We will be able to issue our certificate once the NAO have confirmed whether there are any additional group audit procedures required as part of the Whole of Government Accounts submission.



# Audit of the financial statements

## Key findings

The Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

On 28 July 2023, we issued an unqualified opinion on the financial statements. We reported our detailed findings to the 13 March 2023 Audit Committee meeting, which we then updated and provided to the Committee Chairman in July 2023. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan. We did not report any internal control recommendations or areas for improvement in the control environment in the Audit Results Report.

## Significant risk

## Conclusion

Risk of fraud in revenue and expenditure recognition - inappropriate capitalisation of revenue expenditure

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

We have not identified any material weaknesses in controls or evidence of material management override. We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16. We reviewed expenditure classified as Revenue expenditure funded from capital under statute (REFCUS) but this was immaterial (£793k) for 2021/22 and therefore did not provide the incentive or opportunity to materially capitalise revenue expenditure inappropriately.

We have not identified any instances of inappropriate judgements being applied.

Misstatements due to fraud or error - management override of controls

Our work did not identify any material weaknesses in the design of controls or evidence of material misstatements, whether due to fraud or error, related to the inappropriate capitalisation of revenue expenditure. Our work did not identify any instances of inappropriate judgements being applied.

Our work did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.



# Audit of the financial statements

Significant risk	Conclusion
Valuation of Investment Property	<p>Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, material judgemental inputs and estimation techniques are required to calculate the balances held in the balance sheet.</p> <p>The risk is heightened for traditional retail assets due to market difficulties.</p> <p>Whilst the IP portfolio has remained unchanged, there was a £8m (c.13%) increase in valuation, coupled with a change in external valuer who would not necessarily be as familiar with the Council's portfolio and may have taken a different valuation approach or made different critical assumptions.</p> <p>From our testing, there were no issues arising.</p>
New Finance System	<p>The Council has implemented a new finance system which was used to prepare the 2021/22 financial statements. There is a risk that the migration does not include all transactions and/or that the transactions are migrated at the incorrect amount or to the incorrect part of the accounts.</p> <p>All of the transactions from 1 April 2021 to 20 March 2022 were recorded in the old system. On 21 March 2022 when the new system was fully implemented, all transactions from the old system were transferred to the new system and the production of Trial Balance to support the accounts was via the new system. We obtained material assurance over these processes.</p> <p>There are no issues arising from the results of our testing.</p>
Other risks / areas of audit focus	Conclusion
Valuation of Land & buildings	<p>Property, plant &amp; equipment land &amp; buildings represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation. Material judgemental inputs and estimation techniques are required to calculate the balances held in the balance sheet.</p> <p>Our testing identified one asset which was overstated by £365k driven by the value per acre used by the valuer to determine the land value, which we deemed excessive when compared to similar land values in the same location.</p> <p>Our testing also identified an error in the accounting entries used to bring the current valuation into the general ledger and financial statements. This had no impact on the carrying value of assets, but resulted in a £395k reclassification within unusable reserves. Management have adjusted for this in the Accounts.</p>





# Audit of the financial statements

Other risks / areas of audit focus	Conclusion
Pension Liability valuation	<p>The Code of Accounting Practice requires extensive disclosures regarding the Council's pension liability balances. The accounting requires significant estimation and judgement, with management engaging an actuary to undertake the calculations on their behalf.</p> <p>As the audit was not completed by 31 March 2023, management needed to take account of the completed 2022 triennial valuation. Management commissioned an updated IAS 19 report from their actuary, processing this change within the financial statements, being a decrease in the pension liability of £6.3m.</p> <p>Due to the material movement within these figures we performed additional procedures. This work included additional membership testing (completed at the Pension Fund level) and obtaining updated assurances from PWC as the consulting actuaries. We are satisfied that the updated assumptions within the revised report are supportable.</p> <p>There are no other issues from the results of our testing.</p>
NNDR Appeals Provision	<p>The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements. In prior years we have identified errors above our audit differences threshold.</p> <p>We have reviewed the calculation of the provision and identified a difference of £395k between the Council's working paper and the draft accounts. Management made adjustments to the financial statements to correct this.</p> <p>We reviewed the assumptions, methods and models used by management's specialist. We identified no issues other than the difference identified above.</p> <p>We confirmed that the Council amended the provision for any business rates reliefs awarded.</p> <p>Our post year-end review of appeals settled identified no issues.</p>
Accounting for Covid-19 related government grants	<p>Whilst still significant, 2021/22 saw a reduction in the level of government funding in relation to Covid-19. Furthermore, 2021/22 was the second year of this significant funding stream for the Council and the expectation was that management would be more familiar with the accounting for these type of grants in the current year.</p> <p>Through our review of the 2021/22 draft accounts, we were not able to reconcile management's working papers to the grant income note in relation to Covid-19 grants which was due to a miscommunication regarding the information required and we re-instated Covid-19 grants as an area of focus.</p> <p>From our resulting testing, there were no issues arising.</p>

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2021/22.

Our VFM commentary highlights relevant issues for the Council and the wider public.

We have no matters to report by exception in the audit report.

## Scope

We are required to report on whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. We have complied with the guidance issued to auditors in respect of their work on value for money arrangements (VFM) in the 2020 Code of Audit Practice (2020 Code) and Auditor Guidance Note 3 (AGN 03). We presented our VFM risk assessment to the 13 March 2023 Audit and Governance Committee meeting which was based on a combination of our cumulative audit knowledge and experience, our review of Council committee reports, meetings with the Chief Executive Officer and evaluation of associated documentation through our regular engagement with Council management and the finance team.

## Reporting

We completed our risk assessment procedures and did not identify any significant weaknesses in the Council's VFM arrangements. We have also not identified any significant risks during the course of our audit. As a result, we had no matters to report by exception in the audit report on the financial statements.

Our commentary for 2021/22 is set out over pages 9 to 11. The commentary on these pages summarises our conclusions over the arrangements at the Council in relation to our reporting criteria (see below) throughout 2021/22. Appendix A includes the detailed arrangements and processes underpinning the reporting criteria. These were reported in our 2020/21 Auditor's Annual Report and have been updated for 2021/22.

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

Reporting criteria	Risks of significant weaknesses in arrangements identified?	Actual significant weaknesses in arrangements identified?
Financial sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services	No significant risks identified	No significant weaknesses identified
Governance: How the Council ensures that it makes informed decisions and properly manages its risks	No significant risks identified	No significant weaknesses identified
Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services	No significant risks identified	No significant weaknesses identified





## Value for Money (continued)

### Financial Sustainability: How the Council plans and manages its resources to ensure it can continue to deliver its services

The council has appropriate arrangements in place to ensure financial sustainability.

The medium term financial strategy is updated annually, looking forward over a 4 year period.

During 2021/22, the MTFS in place was the "Medium Term Finance Strategy 2021/22 - 2025/26". This was revised and approved in November 2021 by the Executive and forecasted £1m to be drawn down from reserves in 2022/23 and a further draw down over the following 3 years of £1.1m cumulative.

Subsequent to the year we are assessing, the most recent update to the Financial Strategy was for 2022/23 to 2026/27 and was revised and approved by the Executive in January 2023 and approved by the Council in February 2023. The Five-Year Forecast indicates that there continues to be a number of spending pressures facing the Council over the coming years as core funding sources are expected to fall whilst unavoidable costs increase. A balanced budget was set for 2023/24 albeit with a contribution from general fund reserves of £400k.

There are projected cumulative gaps in the subsequent years, in the region of:

2024/25	£1.4m
2025/26	£2.3m
2026/27	£2.4m

These gaps will need to be addressed by the Council in the forthcoming periods, but the Council has a good track record of addressing gaps through their annual budget processes and putting in place arrangements to do so in advance of the annual budgets based on their forward projections.

Conclusion: Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

### Governance: How the Council ensures that it makes informed decisions and properly manages its risks

The Council had arrangements in place to ensure it made informed decisions and properly managed its risks.

The Council maintains an internal audit service which is resourced in partnership with Portsmouth City Council. The Head of Audit, however, remains an employee of Fareham Borough Council. The internal audit service provided independent assurance on the effective operation of controls in accordance with the internal audit strategy and internal audit charter. This helps in the delivery of the whole scope of audit work and in maintaining independence. An exercise has also been carried out with other audit teams in Hampshire to document where assurances can be shared.

Managers receive a report of findings following an internal audit review and an action plan is agreed to address any weaknesses found. These actions are tracked until they are completed. An action management system has been developed to improve the information available to managers and help capture updates on implementation.

A summary of the work undertaken and the findings are reported quarterly to the Audit and Governance Committee. In 2022/23 a new format Head of Audit's report was piloted.

As well as the Internal Audit service, the Council also maintains a Corporate Fraud Team and an Investigations Team, and their work is also used by management to gain assurance on arrangements to prevent and detect fraud.

The Council has an Audit and Governance Committee which undertakes the functions of an Audit Committee in accordance with the CIPFA guidance. It reports directly to the Full Council.

The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings, along with a representative from the legal services partnership.

Since the end of the year assessed, the Deputy Chief Executive and Chief Financial Officer has been promoted to the Chief Executive. In the short term he remains the statutory s151 officer, but we are of the view this should be a short term arrangement that should be reviewed to ensure statutory roles have appropriate focus and capacity.

**Conclusion:** Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to make informed decisions and properly manage its risks.



## Value for Money (continued)

### Improving economy, efficiency and effectiveness: How the Council uses information about its costs and performance to improve the way it manages and delivers its services

The Council has arrangements in place to improve economy, efficiency and effectiveness. These derive from the Corporate Plan, setting out the Council's priorities and objectives. The Council's Executive monitors progress against the key projects, budgets and performance measures on a regular basis.

To track performance and judge how well the Council are delivering their services, they measure their key activities and set performance targets using performance indicators. Performance information is collated, particularly in the form of the service level agreement report and discussed to identify areas for improvement.

The Council produces a range of commitments and measures each year within its Local Service Agreements. This is a public document that helps to explain what customers can expect from the Council and reports how well its doing. This is formally approved by the Executive and scrutinised by the Policy and Resources Scrutiny Panel.

Fareham Borough Council employs a Procurement team to assist services when carrying out procurement processes and ensuring the Council is up to date with any changes in procurement law, and that their procedures meet the latest national and international requirements. Along with the internal audit team, they keep the Council's Procurement and Contract Procedure Rules current and relevant to the organisation's needs.

**Conclusion:** Based on the work performed, the Council had proper arrangements in place in 2021/22 to enable it to use information about its costs and performance to improve the way it manages and delivers services.

# Appendices

## Appendix A – Summary of arrangements

### Financial Sustainability

Reporting Sub-Criteria	Findings
How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them	<p>The Medium-Term Finance Strategy (MTFS) is reviewed annually and involves discussions with the Deputy Chief Executive, Head of Finance and Audit and two Finance Managers who should be aware of most the significant pressures arising. The Finance Managers are in regular discussion with the Finance Business Partners, at least once a month. All services are assigned a Finance Business Partner and their role is to be in regular discussion with their services to identify financial pressures arising.</p> <p>Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to see the effect. In 2020/21 this resulted in an emergency budget being taken to the Executive in September before the update of the MTFS was scheduled. This was then used to update the MTFS.</p> <p>Regular Corporate Financial Forecasting meetings are held with the Deputy Chief Executive, Head of Finance and Audit and two Finance Managers to review the current financial position. This is backed up by a “Good News/Bad News” update from each of the Finance Business Partners. These meetings were reduced in frequency at the end of 2021/22 to allow the finance team to concentrate on the implementation of the new T1 finance system.</p> <p>Further financial monitoring is introduced if needed. In 2020/21 the finance team introduced a weekly covid monitoring dashboard which highlighted the financial impacts of the pandemic and was predicting further shortfalls arising which would need to be financed from reserves. This was done to take into account the first lockdown and then updated when the next lockdown occurred. In May 2022 additional meetings were arranged to look at the impact of the cost of living on the 2022/23 budgets.</p>
How the body plans to bridge its funding gaps and identifies achievable savings	<p>The MTFS contains a 5-year projection of net expenditure and funding sources and highlights any funding gaps arising. As a result of the gaps identified 2 years ago the organisation carried out an exercise to identify opportunities to save money or generate income. The ideas arising were moderated by the Chief Executive and Deputy Chief Executive to set a 2-year Opportunity Plan of projects to be delivered. This plan is updated and extended as further funding gaps are identified.</p> <p>Reserves were then allocated to finance the establishment of an “Opportunities Plan project team” plus other associated costs which would be needed to achieve the implementation the projects identified. Progress on delivery of the plan is reported to the Opportunities Board which consists of the Chief Executive, Deputy Chief Executive, Head of Finance and Audit, Director of Leisure and Community and the Project team lead.</p> <p>Savings being achieved as projects are delivered are built into the budgets each year and highlighted in the Executive reports. Larger projects are also subject to specific reports to the Executive supported by member briefings. Reserves are also maintained to solve short-term issues outside of the Opportunities Plan. Monitoring of the financial impacts of the pandemic was predicting further shortfalls arising which would need to be financed from reserves.</p>

## Appendix A – Summary of arrangements

### Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities	<p>Formal budget setting is carried out in the summer / late autumn each year with updates during the year as appropriate. This involves discussions between service manager and their Finance Business Partners to ensure that funding is built in to deliver the statutory priorities. In 2022/23 the Council will be implementing new budgeting and forecasting modules in the T1 system to make this process more integrated.</p> <p>The Council maintains a Corporate Strategy which sets out its strategic priorities. Service managers and Finance Business Partners are made aware of the content of the document and take this into account when setting the budgets each year.</p> <p>This document is undergoing a major rewrite at the moment. After this is finalized a formal support document will be developed to map the budget allocations against the corporate strategy headings, particular where capital funding will be required.</p> <p>The funding will be monitored through the budgetary control process.</p>
How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system	<p>Operational changes are identified by Finance Business Partners during the year through discussion with their service managers; they are also involved in checking any reports going to the various decision-making committees which have financial implications. This will include specific plans for the organisation. Any significant changes are highlighted in the good news / bad news updates prepared by the Finance Business Partners.</p> <p>The Council has a number of well-established partnerships which are built into the normal budgetary control processes. Any significant changes to the partnership will be subject to reports to the Executive Committee which will highlight the financial implications. Finance Business Partners will be involved in the production of these reports and can capture the implication for the financial plan.</p> <p>There is an establishment monitoring process carried out by the finance team which feeds into the Corporate Financial Forecasting monitoring and the MTFs. Any changes in establishment is subject to the completion of a financial implication sheet which is prepared in consultation with the relevant Finance Business Partner.</p> <p>Projects to be added to the Capital programme are subject to the completion of a capital evaluation form. The funding needs for the resulting capital programme are discussed between the two Finance Managers and any need for Revenue contributions or use of reserves identified. This is monitored through the Corporate Financial Forecasting meetings.</p>



## Appendix A – Summary of arrangements

### Financial Sustainability (Continued)

Reporting Sub-Criteria	Findings
How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans	<p>Regular Corporate Financial Forecasting meetings are held with Deputy Chief Executive, Head of Finance and Audit and the two Finance Managers to review the current financial position. This is backed up by a “Good News/Bad News” update from each of the Finance Business Partners, who will be picking up unplanned changes in demand from their budget meetings with service managers. Where there are significant changes occurring in the year which affect the MTFS assumptions, these will be built into the MTFS workings to see the effect. In May 2022 the impact of the cost of living on the MTFS assumptions was identified as something that needed specific attention.</p> <p>In 2020/21 Fareham Borough Council supplemented this process by the introduction of weekly Covid dashboards to highlight the financial impact of the pandemic where assumptions underlying the current financial plans were significantly affected and needed revising.</p> <p>In 2019/20 Fareham Borough Council introduced a “Living within our means” campaign to highlight to managers the predicted overspend for the year and the need to turn around the trend in spending. In 2020/21 this moved to a “Living below our means” campaign due to the financial forecasts arising from the Covid dashboard monitoring, which sought to minimise the level of reserves that would be needed to finance the council’s spending that year and in the following year.</p> <p>Reserves are also available to solve short-term issues.</p>

## Appendix A – Summary of arrangements (continued)

### Governance

#### Reporting Sub-Criteria

How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud

#### Findings

The council adopted a new approach to risk management in 2017, based on vanguard principles. This stresses that risk management is an integral part of everyday management and decision making and not as a separate corporate process and therefore do not maintain risk registers except for specific topics and projects. The policy sets out the 7 principles of good risk management at the Council. Meetings are held with Internal Audit, Finance Business Partners and Heads of Service to identify the risks to their services every year (in two 6 monthly batches) and examples are obtained of changes in their risks that they have been managing in the last 12 months. These feed into a report to the senior management team and the Audit and Governance Committee. In particular, the report highlights those risks where further actions are needed or there are financial implications arising.

These six-monthly risk reports have been put on hold during pandemic and risk management activity has focused on the council's response and recovery, including a set of formal written recovery plans. However, this process was reinstated in 2021 and a full cycle completed by March 2022.

The Council maintains an internal audit service which is resourced in partnership with Portsmouth City Council. The Head of Audit, however, remains an employee of Fareham Borough Council. The internal audit service provided independent assurance on the effective operation of controls in accordance with the internal audit strategy and internal audit charter. A plan of work is set for the team each year per the Internal Audit Plan. Progress on delivering the plan and the latest findings arising are reported to each meeting of the Audit and Governance Committee. The results of all this work is used in the Annual Head of Audit's Opinion report along with other sources of assurances on internal control available that year, to provide the Audit and Governance Committee an annual assurance opinion. Highlights are also presented to the Chief Executives Assurance Group.

As well as the Internal Audit service, the Council also maintains a Corporate Fraud Team and an Investigations Team, and their work is also used by management to gain assurance on arrangements to prevent and detect fraud.

The scope of the work carried out by internal audit includes testing the adequacy of controls to prevent or detect fraud or error. The reports include overall assurance opinions for each audit and highlight any weaknesses in controls designed to prevent and detect fraud and error. The Annual Head of Audit's report also highlights any income or expenditure errors (including the value) which have been identified from audit testing. An Annual Counter Fraud Report is also produced and presented to the Audit and Governance Committee by the Head of Finance and Audit.

The Section 151 Officer is also kept aware of any significant Corporate Fraud investigations, particularly where internal fraud is suspected and is often the Steering Officer for these cases so is aware of what is being found in these cases.

## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

Reporting Sub-Criteria	Findings
How the body approaches and carries out its annual budget setting process	<p>The approach has been the same for a number of years. The budget papers roll the base budget forward and the Finance Business Partners make known changes in line with the guidance from the MTFS and following discussions with the service managers. The Finance Manager is responsible for overseeing the whole process and will regularly monitor the budget position from an overall perspective including the financing of the budget from central government grants, retained business rates and council tax funding. The Finance Manager also leads on feeding in the amended establishment costs for the year. The other Finance Manager prepares the projections for the Capital programme to feed in any financing implications to the revenue budget preparation.</p> <p>Once all the information has been collated the Finance Manager pulls together the overall budget proposed and updates the 5-year projections. The budget set and the council tax implications are presented to the Executive Committee.</p> <p>The Council is currently implementing a new finance system which will include an integrated budget setting module. This is expected to be fully functional for setting the 2024-5 budgets.</p>
How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed	<p>Budget reports are produced electronically daily and are available to the budget managers. They are used and adapted by Finance Business Partners in their regular budgetary control monitoring meetings. With the introduction of T1 these are now integrated as an “FBC Budget Monitoring” report within the system.</p> <p>Regular Corporate Financial Forecasting meetings are held with the Deputy Chief Executive, Head of Finance and Audit and the two Finance Managers to review the current financial position. This is backed up by a “Good News/Bad News” update from each of the Finance Business Partners, which highlights issues arising from their meetings with service managers.</p> <p>Formal budget monitoring information is presented to members as part of the next year’s budget setting process at which points revised budgets will be set. A six-monthly position report is also presented to the Executive each autumn. An outturn position report is presented to members in July each year which includes a narrative of the financial activity in the year.</p> <p>Monthly summary financial information is published online for all Members and the public. This can be found on the Council’s website at: <a href="http://www.fareham.gov.uk/pdf/about_the_council/councilport.pdf">http://www.fareham.gov.uk/pdf/about_the_council/councilport.pdf</a>. This has been on hold with the implementation of the T1 system and will be reinstated in 2022/23.</p> <p>A narrative report is included in the Statement of Accounts highlighting the financial and non-financial performance in the year. This is presented to the Audit and Governance Committee.</p>

## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

Reporting Sub-Criteria	Findings
How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/audit committee	<p>The Constitution, including the Schemes of Delegation, sets out how different types of decisions are made, including who has the responsibility for making them and what procedures should be followed. Procedures include publishing committee reports on the Council's website in advance of meetings.</p> <p>The committee structure follows the Executive Leader and cabinet model, which requires Fareham to have a scrutiny function. The Council uses a Scrutiny Panel for each of its six portfolio areas. Each Panel is made up of seven non-executive councillors and reflects the political balance of the elected members. The Panels normally meet a minimum of four times a year with extra meetings called when needed. Each Scrutiny Panel has a Priority Plan which identifies the objectives from the Corporate Strategy and areas of the executive function that require their scrutiny; for example, budget setting falls under the Policy and Resources Scrutiny Panel. Part of the panels' focus is to be engaged in pre-scrutiny work and to have an input in the decision-making process by making recommendations to the Executive. In some cases, specific member working groups are in place to assist in the development of service visions and strategies.</p> <p>The Monitoring Officer and Chief Finance Officer maintain their legal responsibilities to ensure that the Council acts legally and within its financial means and are present at all the executive Committee meetings, along with a representative from the legal services partnership.</p> <p>The Notice of Key Decisions highlights any key decisions due to be made and these are published 28 days prior, to enable wider transparency and opportunities for representation to the decision makers. These are discussed in advance by the Chief Executive's Management Team.</p> <p>Where partnerships have been developed with other agencies, decision making powers and delegated powers are documented and presented to members.</p> <p>The Audit and Governance Committee's role is not to challenge the decisions of the Executive, that is the role of the Scrutiny Panels. Their role is to review the adequacy of the governance arrangements including decision making which is covered when they review the Annual Governance Statement and review the changes being made to the Constitution. They also recently requested clarity on how to refer an item for consideration through the decision-making process.</p>

## Appendix A – Summary of arrangements (continued)

### Governance (Continued)

Reporting Sub-Criteria	Findings
How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)	<p>In accordance with the Localism Act 2011 Fareham Borough Council has a Code of Conduct which sets out the behaviours expected from our members, and arrangements in place to deal with any matters identifies of ethics, honesty and member conduct. This includes a formal member complaint procedure which is overseen by the Monitoring Officer. New members receive an induction session on the Code including how to declare interests in advance and at committee meetings.</p> <p>A report is presented annually to the Audit and Governance Committee setting out the number of complaints received about member and any trends. A standards sub-committee is set up when a significant breach by a member requires investigation and the conclusion is reported at the next meeting of the Audit and Governance Committee and Full Council.</p> <p>The Council's Code of Conduct and Disciplinary Rules and Procedure aim to maintain appropriate standards of conduct at work by employees. All new employees complete induction on the content of the Code. A revised policy on employee gifts, hospitality and interests has been drafted to meet the needs of the Bribery Act and will be finalised in 2022/23 along with a new platform for the Register of interests. The Council has an Anti-Bribery policy and a Whistleblowing policy and channels to allow concerns to be raised.</p>

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness

Reporting Sub-Criteria	Findings
How financial and performance information has been used to assess performance to identify areas for improvement	<p>The budget monitoring report identifies areas that are of high demand or have a net budget of over £1m. The reporting of these services highlights where risks can be identified should these areas be overspent.</p> <p>At the end of the year any areas which were overspent are discussed in the Finance Business Partners meeting and an action plan devised to work with the service to bring the spend under control.</p> <p>Performance information is also collated, particularly in the form of the service level agreement report and discussed to identify areas for improvement.</p>
How the body evaluates the services it provides to assess performance and identify areas for improvement	<p>The Council uses a range of mechanisms, both formal and informal, to evaluate its performance in delivering services, and for identifying and delivering service improvement opportunities.</p> <p>It starts from the top, with a clear expectation that the services provided should be delivered in a way that puts the customer at the heart of the process. This has been embedded throughout the organisation through a formal roll-out of the Vanguard method of service improvement over recent years. Alongside this, a strong and clear message, enshrined within the Council's corporate objectives to be a "dynamic prudent and progressive council", has been cascaded throughout the organisation to ensure that services are not only highly effective, but they are also efficient too.</p> <p>Lines of responsibility in leading service delivery make it clear that Heads of Service are responsible and empowered to make continuous improvements to deliver services that meet customer expectations within affordable financial parameters. Documents such as the Chief Executive's "Expectations of a Director, and Head of Service" ensure that this approach is consistent across the organization.</p> <p>Understanding actual performance is key, and this is measured across all front line services using "10/10" surveys where Heads of Service contact a sample of customers and first ask them to rate the Council's service out of 10, and then ask them what it would take for the Council to get a 9 or 10" This customer feedback helps the Council understand what it would take to achieve excellent customer service and (where appropriate) the processes within the service are adapted to reflect these suggestions.</p> <p>Similarly, the Council produces a range of commitments and measures each year within its Local Service Agreements. This is a public document that helps to explain what customers can expect from the Council and reports how well its doing. This is formally approved by the Executive and scrutinised by the Policy and Resources Scrutiny Panel. All of these channels provide the leadership team with a rounded view of how well services are performing from the customer's perspective and enables the Council to focus on areas where improvement may be necessary.</p>



## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria	Findings
How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve	<p>The Council maintains a Corporate List of its significant partnerships. These are assessed for their significance in terms of the results they seek to deliver, their profile/reputation and resources involved.</p> <p>Lead officers are assigned to each partnership. They are responsible for the day to day liaison with the stakeholders and customers of the partnership and for providing the Chief Executive's Management Team with details of any significant changes to the circumstances / membership of the partnership.</p> <p>Senior Officers and/or Members sit on the board of the Council's significant partnerships and take an active part in discussions and decision making including the delivery of strategies and performance plans set for the partnership.</p> <p>The Council is the lead on the financial management for the Building Control Partnership (with Gosport Borough Council and Portsmouth City Council) and is also finance lead on the Environmental Health partnership with Gosport Borough Council so is in a good position to ensure the financial control and effectiveness of the partnerships. There are regular board meetings held and a representative of the finance team will provide an update on the financial position.</p> <p>The Coastal Partnership is led by Havant Borough Council and regular monitoring meetings are held to discuss how the partnership is performing. An action arising this year has been to update the agreement and monitor the delivery of assurance arising from financial and internal audits.</p> <p>The Legal Partnership with Southampton City Council is monitored closely to ensure that the hours worked is not breached or that work is carried out at a relevant level so as to make sure that the partnership is not overspent at the end of the year or any additional hours or cost will be agreed between the two parties.</p> <p>An annual report on partnerships is collated and reviewed by the Chief Executive's Management Team each year to confirm the significance of the partnerships, review any potential governance issues and review how each is performing. As a result of the 2020/21 report three partnerships were removed from the list where they were no longer considered to be operating as a partnership. There is also now an annual Partnership governance report presented to the Audit and Governance Committee.</p>

## Appendix A – Summary of arrangements (continued)

### Improving economy, efficiency and effectiveness (Continued)

Reporting Sub-Criteria	Findings
How the body ensures that commissioning and procuring services is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits	<p>The Council employs a Procurement team to assist services when carrying out procurement processes. They are professionally trained and in constant contact with the Southampton Legal team to ensure that they keep up to date with changes in procurement law, and that their procedures meet the latest national and international requirements. They are also key parties along with the internal audit team to keeping the Council's Procurement and Contract Procedure Rules current and relevant to the organisation's needs. One of the key principles of the Rules are that a manager should be able to "Justify their Spend".</p> <p>Services are required to liaise with the procurement team and their Finance Business Partner when carrying out significant purchasing decisions and the group have to all agree a procurement approach else there is an escalation process to be followed. This includes when the purchase is complex or organisational sensitive such as the procurement of a service provider. There are a set of key questions that are asked when a significant purchase is being made.</p> <p>Once a contract is in place there is a named lead officer assigned to monitor the performance of the contract. This will usually involve regular meetings with the contractor and a review of any performance measures agreed as part of the contract. For relevant services, such as housing, this will also include satisfaction monitoring with the customer. Where appropriate, rectifying actions are agreed and documented. Where performance does not meet expectations and the actions are not delivered, the Council may consider ending that contract relationship. This decision is usually taken in consultation with the contract manager, the director of that service and the procurement team.</p> <p>There are some expectations of the manager during the contract management stage contained in the Procurement and Contract Procedure Rules but these are not extensive. They currently cover contract documentation and contract payments but are due to be expanded further, through a series of contract management workshops where the procurement team will be working with services to identify best practice in contract management.</p> <p>The Council also recognises critical suppliers/businesses. Examples include the Leisure Centre Operators, the provider of the responsive housing repairs contract, the airport operator at Daedalus and tenants of investment properties. A member of the finance team is assigned to each supplier and tasked with carrying out monitoring of the financial stability of the supplier using the Council's on-line Dunn and Bradstreet tool.</p> <p>The Internal audit service includes some coverage in their plan of work to look at purchasing decisions and whether the suppliers are providing value for money. Purchasing officers for a sample of purchases are interviewed and questioned on their knowledge of their total spend trends with a supplier, how the supplier was chosen and whether the appropriate route to market had been taken. They are also questioned on how they can give assurance on how some of the items on a selected invoice provides value for money. Where possible, they are compared to the cost of similar purchases made or available by open source searching. Other areas examined include on-going contract monitoring, invoice verification and future planned market testing.</p>

## Appendix B – Summary of all recommendations

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### Recommendations

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. We therefore had no recommendations arising from the financial statements and value for money audits in 2021/22.

## Appendix C – Fees

### Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)".

Our proposed fees for 2021/22 are set out below and subject to agreement with the S151 Officer and PSAA.

Description	Final Fee 2021/22 £	Planned Fee 2021/22 £	Final Fee 2020/21 £
Total Audit Fee – Code work	37,137	37,137	37,137
Scale fee Rebasing: Changes in the work required to address professional and regulatory standards (1)	24,902	24,902	8,367
Revised Proposed Scale Fee	62,039	62,039	45,504
Change in risks, errors and other additional time incurred (2,3)	28,515	18,000	25,182
Scale fee variation – triennial pensions (4)	2,779	-	-
Non-audit work			
Non-audit services (Housing Benefit subsidy certification) (5)	TBC	14,000	N/A
TOTAL	TBC	94,039	70,686

All figures exclude VAT

1. As detailed in the our 2020/21 Audit Results Report, we submitted a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. We have rolled this forwards for the purposes of the 2021/22 planned fee.
2. Starting from the 2020/21 audit, there were two new audit requirements which are not included in the initial scale fee. These were:
  - (a) the introduction of the 2020 Code of Audit Practice and it's updated requirements for our Value for Money assessment.
  - (b) ISA540 (revised) audit of accounting estimates – introducing updated requirements.

PSAA communicated an expected range of fees for these new areas, and our work at Fareham Borough Council is towards the lower end of that range, i.e. £6,069 for VFM and £2,351 for ISA 540 (revised).

## Appendix C – Fees (continued)

### Fees

3. We have incurred additional time through internal specialists in areas of property and pension valuations as well as additional work on errors and amendments identified throughout the audit.
  - £4,568 – use of internal experts to verify property valuations
  - £807 – use of internal experts to review the IAS 19 pension liability
  - £1,002 – other IAS 19 work performed by Hampshire Pension Fund auditors recharged to associated authorities
  - £2,892 – additional work performed by the local team on the valuation of other land and buildings and investment properties
  - £2,646 – additional work undertaken to audit Covid-19 grant income
  - £2,619 – additional work undertaken to perform a risk assessment and review of the implementation of the new finance system
  - £386 – additional work undertaken to resolve errors identified in the NDR appeals calculation
  - £5,175 – other errors and amendments identified during the audit, including pension fund assets, other creditors, NNDR arrears and a number of misstatements and casting errors in the disclosure notes
4. As explained in Section 2 of this report, we have had to perform additional work over the Pension balance within the Accounts. This is due to an updated triennial valuation of the Pension Fund.
5. The work to certify the 2021/22 Housing Benefit claim is ongoing. Our final fee will be driven by the level of errors identified and subsequent additional work requirements to drilldown into these errors. We were not the reporting accountant in 20/21.

## Appendix D – Fees

### Relationships, services and related threats and safeguards

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The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and the Council, and its members and senior management and its affiliates, including all services provided by us and our network to the Council, its members and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2021 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity

As at the date of this report, the only non-audit service is the review of the Council's Housing Benefit Subsidy claim. This is a permitted service under the NAO's auditor guidance.



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EY-000070901-01 (UK) 07/18. CSG London.

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